

**REPORT OF THE AUDIT OF THE
GRAYSON COUNTY
SHERIFF'S SETTLEMENT - 2009 TAXES**

**For The Period
April 16, 2009 Through April 15, 2010**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE 502.564.5841
FACSIMILE 502.564.2912**

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
GRAYSON COUNTY
SHERIFF'S SETTLEMENT - 2009 TAXES

For The Period
April 16, 2009 Through April 15, 2010

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2009 Taxes for Grayson County Sheriff for the period April 16, 2009 through April 15, 2010. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$7,909,379 for the districts for 2009 taxes, retaining commissions of \$325,624 to operate the Sheriff's office. The Sheriff distributed taxes of \$7,578,582 to the districts for 2009 taxes. Taxes of \$735 are due to the districts from the Sheriff and refunds of \$2,153 are due to the Sheriff from the taxing districts.

Report Comment:

- The Sheriff's Office Has Lack Of Adequate Segregation Of Duties Without Compensating Controls

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Gary Logsdon, Grayson County Judge/Executive

Honorable Rick Clemons, Grayson County Sheriff

Members of the Grayson County Fiscal Court

Independent Auditor's Report

We have audited the Grayson County Sheriff's Settlement - 2009 Taxes for the period April 16, 2009 through April 15, 2010. This tax settlement is the responsibility of the Grayson County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Grayson County Sheriff's taxes charged, credited, and paid for the period April 16, 2009 through April 15, 2010, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated September 28, 2010 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Gary Logsdon, Grayson County Judge/Executive

Honorable Rick Clemons, Grayson County Sheriff

Members of the Grayson County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Has Lack Of Adequate Segregation Of Duties Without Compensating Controls

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

September 28, 2010

GRAYSON COUNTY
RICK CLEMONS, SHERIFF
SHERIFF'S SETTLEMENT - 2009 TAXES

For The Period April 16, 2009 Through April 15, 2010

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 585,525	\$ 1,305,509	\$ 3,769,316	\$ 1,118,332
Tangible Personal Property	66,036	180,227	344,085	310,487
Fire Protection	2,555			
Increases Through Exonerations		1	1	37
Franchise Taxes	49,728	130,816	268,483	
Additional Billings	221	480	1,422	421
Oil and Gas Property Taxes	1,490	3,237	9,594	2,841
Limestone, Sand and Mineral Reserves	184	400	1,185	351
Bank Franchises	82,016			
Penalties	5,087	11,472	32,562	9,826
Adjusted to Sheriff's Receipt	30	4,583	(2,067)	(417)
Gross Chargeable to Sheriff	792,872	1,636,725	4,424,581	1,441,878
<u>Credits</u>				
Exonerations	2,115	4,685	13,458	3,860
Discounts	11,871	23,471	63,816	22,325
Delinquents:				
Real Estate	14,404	32,220	92,469	27,382
Tangible Personal Property	378	1,111	2,121	1,665
Uncollected Additional Bills	37	80	238	70
Franchise Taxes	7,295	18,950	42,656	
Total Credits	36,100	80,517	214,758	55,302
Taxes Collected	756,772	1,556,208	4,209,823	1,386,576
Less: Commissions *	32,163	66,139	168,393	58,929
Taxes Due	724,609	1,490,069	4,041,430	1,327,647
Taxes Paid	724,366	1,488,843	4,038,653	1,326,720
Refunds (Current and Prior Year)	575	1,239	3,608	1,169
Due Districts or (Refund Due Sheriff) as of Completion of Audit	\$ (332)	\$ (13)	\$ (831)	\$ (242)

* And ** See Next Page.

The accompanying notes are an integral part of this financial statement.

GRAYSON COUNTY
RICK CLEMONS, SHERIFF
SHERIFF'S SETTLEMENT - 2009 TAXES
For The Period April 16, 2009 Through April 15, 2010
(Continued)

* Commissions:

4.25% on \$ 3,699,556
4% on \$ 4,209,823

** Special Taxing Districts:

Library District	\$ (264)
Health District	(96)
Extension District	(157)
Hospital District	(220)
Caney Creek Watershed	735
Big Reedy Watershed	<u>(11)</u>

Due District and (Refunds Due Sheriff)	<u><u>\$ (13)</u></u>
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GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Grayson County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

GRAYSON COUNTY
 NOTES TO FINANCIAL STATEMENT
 APRIL 15, 2010
 (Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Grayson County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 15, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2009. Property taxes were billed to finance governmental services for the year ended June 30, 2010. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 5, 2009 through April 15, 2010.

Note 4. Interest Income

The Grayson County Sheriff earned \$2,451 as interest income on 2009 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office. As of September 28, 2010, the Sheriff owed \$129 in interest to the school district and \$120 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Grayson County Sheriff collected \$46,050 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office. As of September 28, 2010, the Sheriff owed \$485 in add-on fees to the fee account.

Note 6. Unrefundable Duplicate Payments And Unexplained Receipts

The Sheriff deposited unrefundable duplicate payments and unexplained receipts in an interest-bearing account. The Sheriff's escrowed amounts were as follows:

2008	\$2,127
2009	\$3,316

KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned and abandoned funds are required to be sent to the Kentucky State Treasurer by KRS 393.110.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Gary Logsdon, Grayson County Judge/Executive
Honorable Rick Clemons, Grayson County Sheriff
Members of the Grayson County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Grayson County Sheriff's Settlement - 2009 Taxes for the period April 16, 2009 through April 15, 2010, and have issued our report thereon dated September 28, 2010. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Grayson County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation to be a material weakness.

- The Sheriff's Office Has Lack Of Adequate Segregation Of Duties Without Compensating Controls



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Grayson County Sheriff's Settlement - 2009 Taxes for the period April 16, 2009 through April 15, 2010, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Grayson County Fiscal Court, others within the entity, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

September 28, 2010

COMMENT AND RECOMMENDATION

GRAYSON COUNTY
RICK CLEMONS, SHERIFF
COMMENT AND RECOMMENDATION

For The Period April 16, 2009 Through April 15, 2010

INTERNAL CONTROL - MATERIAL WEAKNESS:

The Sheriff's Office Has Lack Of Adequate Segregation Of Duties Without Compensating Controls

During our review of internal controls, we noted the following control deficiencies pursuant to professional auditing standards:

- The Sheriff's bookkeeper collected money, prepared deposits, prepared bank reconciliations, and prepared daily collection printout. The Sheriff or another individual did not document oversight of any of these activities.
- The Sheriff's bookkeeper prepared monthly reports and prepared checks to taxing districts. The Sheriff or another individual did not document oversight of any of these activities.

No compensating controls were noted to offset this control deficiency. Therefore, the control deficiency as described above is a significant deficiency and a material weakness. The Sheriff should have implemented the compensating controls noted below to offset this internal control weakness.

- The Sheriff or designee should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. The Sheriff can document this by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The Sheriff or designee should require the monthly tax distribution reports be reconciled monthly to receipts and disbursements ledgers. The Sheriff can document this by initialing the receipts and disbursements ledgers.
- The Sheriff or designee should periodically compare the monthly tax distribution reports to receipts ledger for accuracy. Any differences should be reconciled. The Sheriff can document this by initialing the monthly tax distribution report.
- The Sheriff or designee can periodically compare payments to taxing districts to checks. The Sheriff can document this by initialing the monthly tax distribution reports, noting that payment amounts were agreed to checks.
- The Sheriff or designee should require monthly bank reconciliations be periodically compared to the balance in the checkbook. Any differences should be reconciled. The Sheriff can document this by initialing the bank reconciliation and the balance in the checkbook.
- The Sheriff or designee should receive a signed receipt from each taxing district documenting delivery of the tax payments.
- The Sheriff or designee should compare amount received per month with amount distributed per month. Any differences should be reconciled.

Sheriff's Response: None.

